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IN BOX

Selling your company

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In Box

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Question: I want to sell my business and hope to get about \$300,000. How can I find a competent local business broker?

Answer: Business brokers typically don't advertise or maintain high profiles, so it helps to get personal referrals and interview a couple of candidates before you hire one.

Ask other business owners, your accountant and your attorney for the names of brokers they have used. BizQuest (www.bizquest.com) and the International Business Brokers Assn. (www.ibba.org) have searchable broker databases.

Any broker you hire should be licensed by the California Department of Real Estate and should have ample transaction experience, said John Bates, a financial advisor specializing in business valuations with Avalon Advisors of Dana Point.

"It's best to use a broker who is a generalist rather than someone who specializes in a particular industry. Specialists tend to work harder to maintain their relationships with buyers in the industry rather than being advocates for the seller," Bates said.

Your broker should be discreet and possess excellent negotiating skills, as well as a take-charge attitude that will free you up to keep the business operating profitably during the transition.

A small-business sale can take a year or more to complete.

"You need someone who can aggressively market your company but do it in a way that doesn't violate confidentiality, since owners do not want employees, suppliers or competitors to know about a potential sale," Bates explained.

"Look for a broker who is experienced in marketing, negotiating the price and terms of the sale, organizing the company's financial data and assisting with the buyer's due diligence process," he said.

Business brokers typically represent sellers, although about 10% also work for potential buyers, Bates said. Commissions usually are paid at the close of the sale and run about 10% to 12% of the total sale price.

Most brokers will charge an upfront fee to appraise and market the company, but it should be nominal — less than \$1,000, he said.

Loan approval depends on many factors

Q: A friend and I would like to open a fitness center. The cost will range between \$400,000 and \$800,000. What type of business entity do banks prefer when granting loans? We're unsure whether to establish a limited liability company, corporation or partnership.

A: The type of business entity you establish is not important in evaluating your company for a bank loan, said Nancy Russell, vice president of Comerica Bank. Russell, who is the bank's regional sales manager based in Costa Mesa, has supervised the granting of Small Business Administration loans for 21 years.

"What business entity to establish is something that your accountant will advise you on given your circumstances," Russell said.

"Lenders reviewing a loan application will look primarily at four things: Your business plan, your income and expense projections, your resume and FICO credit score, and the collateral you're offering," she said.

A loan officer will scrutinize the financial data that you include in your business plan to weigh how difficult it would be for your business to repay the loan. The loan officer also will look at your resume to see how much experience you have in the fitness industry and in entrepreneurship. Your credit score demonstrates how well you have managed past financial obligations.

Some start-ups prefer to get provisional approval of their loan applications before they spend the money to establish legal business entities, Russell said, and that's probably all right.

"The formation of the entity can be a condition of loan approval, but before that we can generally give an idea if we'll be able to do their loan or not," she said.

Got a question about running or starting a small enterprise? E-mail it to karen.e.klein@latimes.com or mail it to In Box, Los Angeles Times, 202 W. 1st St., Los Angeles, CA 90012.

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